

Managing inventors and claims for compensation

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Two employees of GE Healthcare have been awarded £1.5 million in compensation for making an invention of outstanding benefit. This is the first time a UK Court has made an award under Section 40 Patents Act 1977. This note examines the practical effect of the decision for innovative companies and the reasons for the decision.

Practical importance

While still likely to be rare, inventions of outstanding benefit are important in two main areas:

- 1 Any company purchasing a business which has a blockbuster technology (often the main attraction for the business in the first place) needs to understand the potential risk for future claims for inventor compensation and deal with it.
- 2 Businesses with R&D programmes which may produce an invention of outstanding benefit to that business unit need to reduce the likelihood of a claim.

How to manage the risks

Business purchase

Risk of a claim for employee compensation passes with the business which employed the inventor when he made his invention. This was established by a UK IPO decision (*Fellerman's Application*). This applies even where the employee is made redundant. Combine with this the fact that an inventor's compensation claim can be made any time up to 1 year after expiry of the relevant patent and this issue becomes a difficult risk to mitigate.

Warranties on a business purchase may flush out live claims, but will probably have expired before any claim is actually made. Any indemnity or retention of purchase price would have to run for so long that it is likely to be commercially unacceptable or impractical.

The most practical solution is therefore to deal with the point at a due diligence stage – look out for particular blockbuster inventions covered by a patent or patent applications. Having identified the risk of a potential claim it can either be settled, addressed in pricing or accepted as a commercial risk.

Ongoing relations with inventors

It is impossible to exclude the employee compensation

provisions of the Patents Act in an employment contract unless it is done by a collective agreement through a trade union. A number of businesses operate employee reward schemes to incentivise employees to develop inventions which may then be patented. These schemes often generate ex gratia payments but do not come close to making the size of payments awarded by the Court in *Kelly v GE Healthcare*.

Employee reward schemes help for two reasons. First, the fact that an employee has been compensated in some way may discourage them from making a claim which they could lose. Secondly, money already paid to an inventor is taken into account when the court decides how much compensation to award and might be a factor in considering whether it is just to make an award in the first place.

Once an invention has been made, it is possible to get an employee to sign a compromise agreement giving up their rights to a claim for that invention. It is advisable to pay for the employee to receive independent legal advice to avoid an allegation that the agreement was signed under duress.

Background

Employers own inventions created by their employees in the course of their normal or specially assigned employment duties. Section 40 Patents Act gives the employee who has created the invention for which a patent has been granted the right to apply for compensation in certain circumstances. Compensation can be awarded if, having regard among other things to the size and nature of the employer's undertaking, the invention or the patent for it (or the combination of both) is of outstanding benefit to the employer, and it is just that the employee should be awarded compensation.

The law changed in 2005 so that inventions as well as merely the patent covering the invention can attract compensation. The new law covers patents applied for after 1 January 2005.

What does outstanding benefit mean?

There have only been a handful of cases before *Kelly v GE Healthcare* on this subject which actually went to trial. All of them failed because the employee could not prove that the patent was of outstanding benefit.

In *GEC Avionics Limited's Patent*, Stafford Ellis lost his claim relating to a wide-angled head up display because he

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could not prove the patent led to increased sales or other benefits. Although GEC Avionics won a contract worth \$72m to supply these wide-angled head-up displays to the US Air Force, it was also awarded two contracts to supply conventional head-up display units each worth \$75m. Neither of these was covered by the relevant patent.

In **British Steel plc's Patent**, James Monks invented a new outlet valve for controlling the flow of molten metal. Mr Monks was lauded for his invention received an ex gratia payment of £10,000 and the award of an MBE. However, the patent for the invention was relevant to the whole British Steel business (which in 1988/89 had a turnover of £4.9 billion) and was only worth a maximum of 0.1% of turnover to the business.

In **Memco-Med**, John Trett invented a new door detector unit for lift doors. During the case, the Judge (Aldous J) held that sales of products embodying the patented invention accounted for about 80% of Memco-Med's turnover. However, as in GEC Avionics' patent, the patented invention merely replaced sales of an old model and the evidence established that Memo-Med produced only one model of door detector at a time. Inevitably, the current model was a high proportion of the product sales.

In **Fellerman's Application**, Mr Fellerman applied for compensation against Thorn EMI Patents Limited, the owner of a patent for a halogen hob of which he was the inventor. Although Thorn EMI Patents Limited was the registered proprietor of the patent, it was never the employer of Mr Fellerman. Mr Fellerman had been made redundant from Thorn EMI Domestic Appliances Limited, but the business of which he had been an employee was sold to Electrolux Associated Companies Limited. The Hearing Officer held that he had to consider who was Mr Fellerman's employer when he made his invention and then determine which company is now the successor to that company. This was not Thorn EMI Patents Limited, and the case was struck out.

The facts in *Kelly v GE Healthcare*

Duncan Kelly and his co-inventor Ray Chiu invented Myoview for Amersham International plc, which was later bought by GE to make GE Healthcare Limited. Myoview is a cardiac imaging agent. It was a hugely successful invention for GE Healthcare, generating revenues between 2002 – 2007 of approximately £1 billion. The relevant time period is shorter than the life to date of the patent because up to 2002, GE Healthcare had regulatory data exclusivity in relation to Myoview. This meant that competitors would have been prevented from entering the market with a generic version of Myoview even if the Myoview patent had not existed.

Mr Justice Floyd produced a useful summary of the assessment under Section 40:

- 1 An inventor is the actual deviser of the invention.
- 2 Compensation is available to an employee who makes an invention (which is subsequently patented by the employer) in the ordinary course of his employment or in the course of duties specifically assigned to him.
- 3 The patent (or under the new law the invention) must be of outstanding benefit to the employer having regard to the size and nature of the employer's undertaking (outstanding in this case means something special or out of the ordinary).
- 4 It is normally useful to consider what would have been the position of the company if a patent had not been granted (or, under the new law, if an invention had not been made) and compare this with the company's position with the benefit of the patent.
- 5 The patent does not have to be the only cause of the benefit, although in the case of multiple causes the benefit must be apportioned between them.
- 6 It must be just to award the compensation and this consideration can include a number of factors.
- 7 An employee does not have to prove loss or expenditure of effort and skill beyond the call of duty, although these can be taken into account in assessing the amount of compensation payable.
- 8 The valuation of the benefit is made in light of all the available facts at the time of the claim.
- 9 In awarding compensation, the compensation is determined in light of all the available evidence so as to secure a just and fair award to the employee neither limiting him to compensation for loss or damage nor placing him in as strong a position as an external patentee or licensor.

Although inventions of outstanding benefit will still be very rare, and the law may yet change if GE Healthcare appeals the decision, the practical steps at the start of this note will allow companies to manage this legal risk.

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